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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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In the Matter of	)	
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Federal-State Joint Board on Universal Service	)	**CC Docket No. 96-45**
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	)	

COMMENTS

MCI TELECOMMUNICATIONS CORPORATION

Mary J. Sisak
Mary L. Brown
1801 Pennsylvania Ave., N.W.
Washington, DC 20006
(202) 887-2605

Its Attorneys

Dated: December 19, 1996

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SUMMARY

"Competitive neutrality" should be added as a universal service principle because the application of universal service in a manner which favors certain competitors or technologies would hurt the development of competition. Accordingly, the Commission should urge the states to designate service areas for non-rural telephone company areas that are of sufficiently small geographic scope to permit efficient targeting of high cost support and to facilitate entry by competing carriers.

The Commission should adopt forward-looking economic cost, as determined by a proxy model, as the basis for determining universal service support. The Hatfield Model meets the proxy model principles listed by the Joint Board and, therefore, it should be adopted.

The Commission should not adopt the Joint Board's recommendation that the universal service support benchmark should be set based on all revenues per line, including revenues from local, discretionary, and access services. Rather, only revenues that are mandatory for a residential customer to pay to obtain the package of universal service should be included for purposes of developing a benchmark.

Contributions to universal service must be assessed on all revenues, both interstate and intrastate, to effectively meet the goal of universal service. A subsidy mechanism funded based on only interstate revenues would result in a significantly reduced, and insufficient, funding base.

Lifeline and Link-up should be modified such that the programs are funded through equitable and non-discriminatory contributions from all interstate telecommunications carriers and the support is available to all carriers serving eligible customers. The Commission, however, should not adopt the Joint Board's recommendation that the Commission prohibit carriers

receiving universal service support for providing Lifeline service from disconnecting such service for non-payment of toll charges because it is bad policy. MCI also does not, at the present time, support adoption of the Joint Board's recommendation to provide baseline support in the amount of $5.25 because there is no record evidence to support the calculation of a federal subsidy of this amount.

The Commission should not reduce the SLC even if universal service support payments are based on carriers' interstate and intrastate revenues. However, a SLC reduction could result from the Commission's upcoming proceeding to reform access charges.

MCI supports a requirement that schools and libraries use competitive bidding for supported services and that they certify that they will be able to deploy the equipment and services necessary to use subsidized services effectively. MCI has concerns, however, with the recommended scope of eligible services and with the size of the education fund.

In light of the current requirement that interexchange services must be provided at geographically averaged rates, it is not clear what additional rules are necessary to ensure that rural health care providers receive services "necessary for the provision of health care" at rates comparable to those in urban areas. In any event, support should be limited to advanced telecommunications services. There is no evidence that upgrades to the public switched network are necessary to deliver services to rural health care providers. Moreover, Section 254(h)(1)(A) does not include subsidies for network upgrades.

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COMMENTS

MCI Telecommunications Corporation (MCI) hereby submits comments on the Recommended Decision adopted by the Federal-State Joint Board (Joint Board) on universal service. MCI's comments are limited to the specific issues addressed below.

I. COMPETITIVE NEUTRALITY

MCI strongly supports the Joint Board's recommendation that "competitive neutrality" should be added as a universal service principle. Specifically, MCI agrees with the Joint Board's recommendation that competitive neutrality should apply to the collection and distribution of funds and the determination of eligibility for universal service support. MCI also agrees with the Joint Board's recommendation that competitive neutrality includes technological neutrality.

The importance of adopting the principle of competitive neutrality cannot be minimized. Universal service support mechanisms and rules must be applied in a competitively neutral manner because the application of universal service in a manner which favors certain competitors--namely, incumbents-- or technologies would hurt the development of competition, which is needed to ensure that the goals of universal service are met. Thus, MCI urges the Commission to adopt the Joint Board's recommendation and urge the states to designate service areas for non-rural telephone company areas that are of sufficiently small geographic scope to permit efficient targeting of high cost support and to facilitate entry by competing carriers. As found by the Joint Board, unreasonably large service areas could deter entry by competitors because fewer competitors would be able to afford the start-up costs associated with serving a large area. Also, new entrants would not be able to provide a competitively viable service if they do not receive universal service support where the incumbent does receive support. Thus, defining the service area as the entire area served by the incumbent local exchange carrier (LEC) could prevent the development of competition in any area served by the incumbent LEC. Thus, states should not adopt the existing study areas of larger LECs as the service area.

In addition, there is no need to define "service areas" broadly because forward-looking cost models identify the cost of basic universal service on a disaggregated basis-- indeed, the Hatfield Model identifies cost down to census block groups-- which effectively precludes any fear that new entrants could gain a competitive advantage by serving only lower cost customers while receiving the same level of support as the incumbent that serves a larger area.

II. FORWARD-LOOKING ECONOMIC COST

The Joint Board recommends that forward-looking economic cost should be the basis for determining universal service support. MCI supports this recommendation because the use of forward-looking economic cost will preserve and advance universal service, promote efficiency, and provide the correct signals for entry, investment, and innovation in the long-run. MCI also supports the Joint Board's conclusion that cost estimates generated by a proxy model is the appropriate way to determine forward-looking cost because a proxy model will provide a competitively neutral estimate of the cost of providing supported services.

III. PROXY MODEL

The Joint Board enumerates a number of principles to which it believes a proxy model for universal service costs should adhere.[1] It also states that the Hatfield Model, supported by MCI, and the Benchmark Cost Model 2 (BCM2) sponsored by U S West and Sprint, are the two primary models that merit further consideration.

Taken together, the Joint Board's principles will help to ensure that the cost model estimates the proper level of universal service support. For the reasons discussed below, the Hatfield Model better meets the principles listed by the Joint Board, and should be adopted for the estimation of universal service costs.

> Principle 1. Technology assumed in the model should be the least-cost, most efficient and reasonable technology for providing the supported services that is currently available for purchase, with the understanding that the models will use the incumbent LECs' wire centers as the center of the loop network for the reasonably foreseeable future.

The Hatfield Model uses existing wire center locations to develop the costs of the network. It then uses data on customer density to determine the size of switches and the amount

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[1] Recommended Decision at para. 277.

of cable and wire facilities, including structure, needed to serve each census block group (CBG) in the country. It also uses the density data to select the most efficient type of cable to be used (copper or fiber). An important difference between BCM2 and the Hatfield model is in the type of digital loop carrier (DLC) used. BCM2 uses universal digital loop carrier in loops where DLC is indicated, while Hatfield uses integrated digital loop carrier. Unlike the universal DLC used by the BCM2, integrated DLC allows calls to be passed into digital switches without first converting the signal into analog form, thus minimizing cost.

> Principle 2. Any network function or elements, such as loop, switching, transport, or signaling, necessary to produce supported services must have an associated cost.

Of the two models, only the Hatfield model is able to determine the cost of all network functions. The Hatfield Model develops unit costs and investments for all network elements used in the provision of basic local exchange service, and the total cost of universal service is built up from these costs. BCM2 does not produce the cost of individual network elements. Per line investments are computed for loops and switching, but monthly loop costs and per-minute costs for switching cannot be separately identified. In addition, BCM2 does not produce unit costs or investments for other network elements, such as transport or signaling.

> Principle 3. Only forward-looking costs should be included. The costs should not be the embedded cost of the facilities, functions, or elements.

The Hatfield Model uses forward-looking, incremental expense data wherever available. For expense categories where forward-looking information is not available, expenses have been adjusted to reflect a forward-looking view. By contrast, BCM2 uses embedded costs for all expense categories except maintenance associated with switching, circuit equipment and cable and wire. Only the Hatfield Model bases its estimates on forward-looking costs.

> Principle 4. The model should measure the long-run costs of providing service by including a forward-looking cost of capital and the recovery of capital through economic depreciation expenses. The long run period used should be a period long enough that all costs are treated as variable and avoidable.

The Hatfield Model uses forward-looking cost of capital and depreciation rates. The 10% overall rate of return on investment used in the Hatfield Model is developed from explicitly defined costs of debt and equity and a 45% debt/55% equity capital structure, while the depreciation lives used are based on FCC-approved depreciation schedules. Although MCI believes that the default values used for each of these variables in the Hatfield Model represent their forward-looking values, the model allows each of these inputs to be varied by the user.

By contrast, BCM2 uses the LECs' current authorized target rate of return of 11.25%, and unspecified depreciation rates to compute monthly costs. [2] The cost of capital and depreciation rates are embedded in the cost factors used to determine monthly costs from investment amounts. None of these values is user-adjustable.

> Principle 5. The model should estimate the cost of providing service for all businesses and households within a geographic region. This includes the provision of multi-line business services. Such inclusion allows the models to reflect the economies of scale associated with the provision of these services.

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[2] The default depreciation lives are based on the lives for Bell Atlantic-Maryland. These lives are short, compared to the lives for other companies, which makes the depreciation expense conservatively high.

While both the Hatfield Model and BCM2 include single and multi-line businesses in estimating costs, only the Hatfield Model reconciles household and business line counts to actual reported lines in each category for each study area. In addition, the Hatfield Model has updated the 1990 census counts for households to the 1995 estimates, thus reflecting current line counts in all areas.

> Principle 6. A reasonable allocation of joint and common costs should be assigned to the cost of supported services. This allocation will ensure that the forward-looking costs of providing the supported services do not include an unreasonable share of the joint and common costs incurred in the provision of both supported and non-supported services, e.g., multi-line business and toll services.

The Hatfield Model includes a reasonable allocation of joint and common costs by 1) assigning joint costs on the basis of costs directly developed for each plant category, and 2) marking up the cost of each network element by 10% to reflect each element's share of forward-looking overhead expense.

BCM2 assigns 75 percent of all embedded expenses in non-plant-related categories to basic universal service. While this allocation might be reasonable for some corporate operations expenses, the assignment of 75 percent of customer operations expense and other non-plant-related expenses to basic universal service is not reasonable, as basic local service causes far less of these expenses (e.g., research and development, marketing, selling) than competitive services.

> Principle 7. The model and all underlying data, formulae, computations, and software associated with the model should be available to all interested parties for review and comment. All underlying data should be verifiable, engineering assumptions reasonable,

and outputs plausible.

All formulae, data and computations used in the Hatfield Model are visible and verifiable. Engineering components of BCM2 are visible and verifiable, but BCM2 uses expense factors and per-line expense amounts that are based on calculations that are not visible or verifiable.

> Principle 8. The model should include the capability to examine and modify the critical assumptions and engineering principles. These assumptions and principles include, but are not limited to, the cost of capital, depreciation rates, fill factors, input costs, overhead adjustments, retail costs, structure sharing percentages, fiber-copper cross-over points, and terrain factors. The models should also allow for different costs of capital, depreciation, and expenses for different facilities, functions or elements.

The Hatfield Model permits independent modification of all the factors mentioned in principle 8, and explicitly makes provision for use of different capital costs, depreciation and expenses for different facilities and functions. Thus, it fully meets the criteria listed in principle 8.

Although some inputs of BCM2, such as fill factors and input costs, are user-adjustable, most are not. Either BCM2 does not permit any user modification within the model at all, for such variables as cost of capital, depreciation rates, overhead adjustments, or retail costs, or it limits user-adjusted values to specific values, such as for the fiber-copper crossover points, or it simply makes no provision in the model for important variables, such as structure sharing. Thus, BCM2 does not allow the user to "examine and modify the critical assumptions and engineering principles."

IV. THE BENCHMARK

The Recommended Decision presents several conclusions about the establishment of a benchmark for universal service support: that a national benchmark would enable the Commission to assure a reasonable support level to all carriers; that the benchmark should be set based on revenues per line (rather than relative costs); and that the revenues considered should include local, discretionary, and access services.

MCI is in general agreement with the first two of these recommendations. The third recommendation, however, appears to be inconsistent with the Commission's policies in Docket 96-98 and with the requirements of the Telecommunications Act of 1996. MCI also is in agreement with the statement in the Recommended Decision that the benchmark cannot be established independently of the determination of whether the new Federal universal service fund will be based on all revenues of interstate carriers or their interstate revenues alone. The larger the base of the fund, the greater the objective of the fund can be and, consequently, the lower the benchmark can be set. If the Federal fund is limited in scope, because of funding constraints, then the benchmark will have to be set relatively higher and the states will have a greater obligation to support rates for high cost areas.

MCI also is concerned with the recommendation to include discretionary and access revenues in the benchmark.[3] (Although the decision does not identify which portions of access

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[3] The decision not to include revenue from intraLATA toll service is puzzling. The argument presented is that because the costs of some network components used to provide toll service, e.g. tandem switches, are not included in the proposed proxy models, the revenues from these services should not be included in the benchmark. But this ignores the fact that the network elements whose costs are estimated in the proxy models, e.g. the loop, are required in order to provide intraLATA toll service. So, if the benchmark is to be established to reflect "a

revenues would be included, it is assumed for purposes of this discussion that it is intended to include switched access charges that are now assessed on a per minute-of-use basis.) While the Joint Boards' observation that the loop is used to generate revenues from these services is correct, the policy recommendation to measure the needed universal service support based on the average level of these revenues is flawed.

The problem with relying on the average level of revenues as a benchmark is that for customers with below-average usage of discretionary and access services, the combination of universal service funds plus the revenues collected from that customer will not cover the full cost of the loop (and the other network elements needed to provide him with service). Consequently, unless non-usage sensitive rates (i.e. local rates or the End User Common Line charge) are increased to cover the full cost of these network elements, the LEC will be forced to recover these costs from other customers (with above average usage of discretionary and access services), or be faced with a disincentive to serve those below-average usage customers.

Neither of these alternatives is satisfactory. Setting non-traffic sensitive rates high enough to cover all NTS costs in rural areas is unacceptable to most policy makers. On the other hand, relying on a cross-subsidy between high-usage and low-usage customers is inconsistent with the goal of encouraging competition in all parts of the country. It also is in conflict with the requirement of the Act that subsidies be made explicit, rather than implicit. Furthermore, a universal service policy erected on the premise that usage sensitive services will cover the cost of

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reasonable expectation of the revenues that a telecommunications carrier would be reasonably expected to offset its cost," (par. 311) there is no reason to exclude all of the revenues from a service, just because that service requires network facilities in addition to the ones studies in the proxy models.

non-traffic sensitive elements of the network is at odds with the Commission's decision in Docket 96-98 that requires incumbent LECs to price network elements in accordance with economic efficiency.

Therefore, MCI proposes that the definition of average revenue for purposes of developing a benchmark should only include revenues that are mandatory for a residential customer to pay to obtain the package of universal service as defined by the Commission.[4]

V. CONTRIBUTIONS TO UNIVERSAL SERVICE MECHANISMS

Contributions to universal service must be assessed on all revenues, both interstate and intrastate, to effectively meet the goal of universal service. As an initial matter, if federal support is based on the total cost of supported services without regard to jurisdictional distinctions, as is the case with the two proxy models under consideration, then the revenues that fund the support also must be defined without regard to jurisdictional distinctions. Such a subsidy mechanism would be easier to administer than any alternative and would provide much greater certainty to companies making financial decisions on whether to make investments to serve high cost areas.

A subsidy mechanism funded based on only interstate revenues would result in a significantly reduced, and insufficient, funding base. To accommodate such a reduced funding base, the benchmark would have to be set at a much higher level or only interstate costs could be subsidized. Otherwise, interstate services would bear a disproportionate share of the cost of

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[4]Although measured local service can be obtained in most local areas at a price below the rate for unmeasured service, the vast majority of customers purchase unmeasured service, which makes the unmeasured rate a better benchmark for universal service purposes.

universal service.

In addition, to keep rates at affordable levels, states most likely would have to establish large subsidy mechanisms funded from assessments on telecommunications carriers' intrastate revenues. This would have several deleterious effects. First, because the assessment rate would be different for interstate and intrastate revenues, the price to a customer of an identical service (e.g. toll service) sold under two different jurisdictional umbrellas could never be equalized. This is at odds with a competitive market. Second, it would force reliance on jurisdictional reporting by all telecommunications carriers, and increase regulatory burdens and distortions, rather than lead the way to less regulation. Third, even if there were no enforcement problems associated with jurisdictional reporting, carriers would be given an incentive to structure rates for bundled offerings in a manner that would increase the reported revenues from the jurisdiction with the lower universal service assessment. For example, a carrier that faced a higher interstate assessment rate could discount interstate toll service to customers willing to pay a higher flat rate for local service. Thus, both interstate and intrastate revenues of interstate carriers must be assessed for purposes of universal service.

The Commission also must consider the funding base in determining the final amount of universal service support that will be provided to schools and libraries. Thus, if support, ultimately, is based on interstate revenues only, then the fund amount must be reduced accordingly.

VI. SUPPORT FOR LOW-INCOME CONSUMERS

MCI supports the Joint Board recommendation that Lifeline and Link-up should be modified such that the programs are funded through equitable and non-discriminatory contributions from all interstate telecommunications carriers and the support is available to all carriers serving eligible customers. These modifications are necessary to ensure "competitive neutrality."

The Commission, however, should not adopt the Joint Board's recommendation that the Commission prohibit carriers receiving universal service support for providing Lifeline service from disconnecting such service for non-payment of toll charges (DNP) because it is bad policy. Allowing low-income consumers to incur long-distance charges that they can refuse to pay without fear of any consequences will only lead to increased uncollectibles for interexchange carriers which will drive up the cost of long distance services for all consumers--including financially responsible low-income consumers who pay their bills. History has proven this to be the case -- uncollectibles in states that do not allow DNP are greater than those in states that do allow DNP.[5]

Moreover, contrary to the information submitted by NTIA and relied upon by the Joint Board, there is no evidence that denial of DNP leads to higher subscribership penetration rates. For example, total penetration rates throughout the United States increased by 2.5% between

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[5] MCI's bad debt in percentage in Pennsylvania, which does not allow DNP, is more than double that of any other state in which Bell Atlantic performs billing and collection for MCI. In New York, which also prohibits DNP, the three largest IXCs experienced increases in uncollectibles ranging from 1.63 percent to 2.28 percent. And, in Texas, where the Public Utility Commission considered, but did not adopt, a prohibition on DNP, the three largest IXCs estimated that the annual incremental increase in net bad debt expense would reach $45 million.

1983 and 1994, while penetration rates in Pennsylvania, which prohibited DNP during most of that period, only increased by 2.2%.[6] In addition, nine out of twelve states with increases of at least 9 percentage points in penetration between 1984 and 1993 for households at the poverty level allow LECs to disconnect the local service of customers who fail to pay long distance charges.[7]

Low-income consumers, and all consumers, can control their toll charges by using debit cards or pre-paid calling cards. Or, consumers can accept toll-blocking, in which case there would be no risk of denial of local service for non-payment of long distance charges. However, where allowed by the state, DNP should continue to apply to low-income consumers who refuse toll-blocking.

With respect to the Commission's specific questions concerning universal service support for low-income consumers, MCI does not, at the present time, support adoption of the Joint Board's recommendation to provide baseline support in the amount of $5.25. There is no record evidence to support the calculation of a federal subsidy of $5.25. On the contrary, in states and for local exchange areas where Lifeline is implemented, Lifeline seems to be a success. Moreover, in 1993 the average Lifeline rates were between $3 and $10 per month for unlimited service (including SLC and tax). Therefore, the Joint Board's proposed subsidy amount appears to be greater than necessary, at least in some cases, as it would be more than the rate for

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[6] Pennsylvania implemented its "no disconnect" rule in 1985.

[7] These states include Connecticut, Georgia, Michigan, New Mexico, North Carolina, South Carolina, Tennessee, Vermont and Washington. See, Schement, Belinfante, and Povich, Telephone Penetration 1984-1994, January 18, 1995, at 3.

supported services.

The problem identified by the Joint Board is that some states and some local exchange carriers choose not to participate in the current federal Lifeline program-- in some cases because the LEC's rates are already much lower than most as a result of federal universal service support payments and other subsidies. Thus, any change in the federal Lifeline program should be targeted to benefit low-income persons in states and LEC areas that do not participate in the current program.

VII. INTERSTATE SLC AND CCLC

The Joint Board recommends that Long Term Support (LTS) payments be removed from Carrier Common Line Charges (CCLC) and explicitly recovered from the new universal service fund[8]; and that if intrastate revenues are included in the "tax base" to fund the explicit universal service fund, the Commission should divide the LTS payment reduction and reductions that result from the deregulation of payphones equally between the subscriber line charge (SLC) and the CCLC.[9]

The SLC should not be reduced as a result of making the current LTS subsidy explicit and deregulating payphones. As an initial matter, currently LTS and payphone costs are directly assigned to the CCLC and, therefore, any changes to these items will be reflected only in the CCLC. The Joint Board acknowledges that LTS revenues are recovered solely by setting CCL

[8] Recommended Decision at para. 768.

[9] Id. at para. 773.

charges above cost.[10] Thus, explicit recovery of LTS revenues in the universal service fund requires the CCLC to be reduced by the full amount of LTS.

In addition, it is not necessary to adopt this recommendation which, apparently, was motivated by the Joint Board's concern that if intrastate revenues are considered in determining carriers' universal service obligation, intrastate rates will increase. That could be true if nothing else was changed as a result of the Commission's pending cost allocation proceeding[11] and forthcoming access charge reform proceeding. However, these proceedings create opportunities to bring the costs of regulated telephone services to their economic cost, reducing interstate revenue requirements, and so permitting a decrease in both the SLC and the CCLC. With a proper universal service plan in place, the competition envisioned by the Act can extend throughout the nation and bring local rates down.

As the Joint Board acknowledges, " ...interstate cost-recovery mechanisms...depends upon a number of issues not presented to this Joint Board....The Commission must also address the extent to which embedded loop costs should be recovered in its upcoming access charge reform proceeding."[12] MCI agrees with this assessment. MCI estimates that existing common line charges of $10.36 billion in 1996[13] are $4.77 billion above economic cost.[14] Existing

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[10] Recommended Decision at para. 767.

[11] Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services, CC Docket 96-112.

[12] Recommended Decision at paras. 770-771.

[13] 1996 Tariff Review Plan (TRP), Total Price Cap LEC Industry, Page 1.

[14] Derived by applying the current interstate allocation of 25% of loop costs to the interstate jurisdiction to the TELRIC estimate of Tier 1 LEC loop costs using Hatfield Model,

common line costs need to be reduced by 46% in order to bring them into alignment with economic cost. By doing so, the Commission could reduce total end user charges from $6.95 billion to $3.75 billion, and the monthly SLC from $3.50 to $1.90.[15] Total CCL charges would decline from $3.4 billion to $1.8 billion.[16]

Thus, MCI shares the Joint Board's concern that explicit funding of universal service obligations, without simultaneously removing all implicit universal subsidy charges from existing rates, would result in unjustified rate increases. However, the problem will not be solved by excluding intrastate revenues from explicit funding requirements, which would only burden interexchange carriers with the full brunt of the rate increase. The proper solution is to condition the cut-over to explicit universal service funding on completion of bringing all access charges to economic cost in the Commission's forthcoming access charge reform proceeding. It is critical that the Commission does not permit the double recovery of "universal service" through the fund and access charges.

VIII. SUPPORT FOR SCHOOLS AND LIBRARIES

MCI supports a number of the recommendations of the Joint Board concerning universal service support for schools and libraries. For example, MCI supports all efforts to create a funding mechanism that encourages, to the greatest extent possible, competitive bidding, such as

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Version 2.2.2.

[15] This assumes that the overall reduction in common line costs would be proportionally shared between the CCLC and the SLC.

[16] 1996 TRP, Total Price Cap LEC Industry, Page 1.

the Joint Board's innovative recommendation to require schools and libraries to "submit their requests for services to the fund administrator, who would post the descriptions of services sought on a web site for potential providers to see."[17] MCI also supports the Joint Board's recommendation that the Commission establish tiered discounts for schools and libraries in high cost and low income areas. Tiered discounts will ensure that limited resources are used in the most efficient manner to ensure that all students have access to advanced telecommunications services. In addition, MCI agrees with the Joint Board's recommendation to require schools and libraries to certify that they will be able to deploy the necessary hardware, software, and wiring, and to undertake the necessary teacher training required to use subsidized services effectively.[18]

A number of the Joint Board's recommendations, however, should be revisited. For example, the Joint Board's recommendation to require the offering of services to schools and libraries at the "lowest corresponding price" offered by the carrier may not ensure that schools and libraries in high cost areas receive the best prices possible for services. While this measure may be relevant in areas where there is true local competition, it is not relevant in areas where competition has yet to take hold. Rather, the pre-discount rates offered to all schools and libraries should reflect those found in a competitive market-- the total service long run incremental cost of providing service. In this manner, all schools and libraries could receive the benefits of competition, even in areas of the country where full competition does not exist.

MCI also has concerns with the recommended scope of eligible services and with the

[17] Recommended Decision at para. 546.

[18] Id. at para. 600.

determination of the maximum size of the educational fund. Both of these recommendations will affect the size of the overall universal service fund, which, in turn, will have an impact on the pace at which competition can be brought to local telephone markets. As the Joint Board recognized in its recommendations, true competition in local markets is the first step towards ensuring universal service and bringing the benefits of competition -- lower prices, greater choice, and higher quality services -- to all consumers, including schools and libraries. Accordingly, the Commission must ensure that universal service support -- including support for schools and libraries-- does not impose undue costs on potential competitors which would impede their ability to enter new markets.

Finally, the Commission should not adopt the Joint Board's recommendation that Internet Service Providers be allowed to draw from the universal service fund. Section 254 of the Act requires only telecommunications carriers to provide services to schools and libraries at "rates less than the amounts charged for similar services to other parties," and, includes reimbursement only for such carriers. Accordingly, non-telecommunications carriers are not eligible under the Act for reimbursement.

IX. SUPPORT FOR HEALTH CARE PROVIDERS

The Commission seeks additional information on the services provided to health care providers that should be included as eligible for universal service support. In light of the current requirement that interexchange services must be provided at geographically averaged rates, it is not clear what additional rules are necessary to ensure that rural health care providers receive services "necessary for the provision of health care" at rates comparable to those in urban areas.

In any event, support should be limited to advanced telecommunications services, such as T-1 service, which would permit the quick transmission of images, such as X-rays, necessary to provide services such as remote consulting and diagnosis. MCI agrees with the Joint Board's recommendation that customer premises equipment (CPE) should not be eligible for support because CPE is equipment and not a service.

The Commission also seeks additional information on the probable costs and the advantages and disadvantages of supporting upgrades to the public switched or backbone networks where such upgrades can be shown to be necessary to deliver services to eligible rural health care providers. There is no evidence that upgrades to the public switched network are necessary to deliver services to rural health care providers. Moreover, Section 254(h)(1)(A), which states that a telecommunications carrier shall be entitled to have treated as a universal service obligation "an amount equal to the difference, if any, between the rates for <u>services</u> provided to health care providers for rural areas in a State and the rates for similar <u>services</u> provided to other customers in comparable rural areas in that State...," (emphasis added) does not include subsidies for network upgrades.

With respect to the determination of comparable rates and the calculation of the subsidy, telecommunications carriers should be required to charge rural health care providers no more than the TELRIC rate of the same or comparable service in the nearest urban area. The carrier should be entitled to receive a universal service offset of the difference between the TELRIC rate of the service in the rural area and the TELRIC rate of the service in the urban area.

X. CONCLUSION

Based on the foregoing, MCI respectfully requests that the Commission adopt the recommendations contained herein.

Respectfully submitted,

MCI TELECOMMUNICATIONS CORPORATION

By: Mary J. Sisak

Mary J. Sisak
Mary L. Brown
1801 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
(202) 8872605

Dated: December 19, 1996

CERTIFICATE OF SERVICE

I, Sylvia Chukwuocha, do hereby certify that copies of the foregoing Comments were sent via first class mail, postage paid, to the following on this 19th day of December, 1996.

The Honorable Reed E. Hundt, Chairman
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, D.C. 20554

The Honorable Rachelle B. Chong,
Commissioner
Federal Communications Commission
1919 M Street, N.W., Room 844
Washington, D.C. 20554

The Honorable Susan Ness, Commissioner
Federal Communications Commission
1919 M Street, N.W., Room 832
Washington, D.C. 20554

The Honorable Julia Johnson,
Commissioner
Florida Public Service Commission
2540 Shumard Oak Blvd.
Gerald Gunter Building
Tallahassee, FL 32399-0850

The Honorable Kenneth McClure,
Commissioner
Missouri Public Service Commission
301 W. High Street, Suite 530
Jefferson City, MO 65101

The Honorable Sharon L. Nelson,
Chairman
Washington Utilities and Transportation
Commission
P.O. Box 47250
Olympia, WA 98504-7250

The Honorable Laska Schoenfelder,
Commissioner
South Dakota Public Utilities Commission
State Capitol, 500 E. Capitol Street
Pierre, SD 57501-5070

Martha S. Hogerty
Public Counsel for the State of Missouri
P.O. Box 7800
Jefferson City, MO 65102

Paul E. Pederson, State Staff Chair
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Lisa Boehley
Federal Communications Commission
2100 M Street, N.W., Room 8605
Washington, D.C. 20554

Charles Bolle
South Dakota Public Utilities Commission
State Capitol, 500 E. Capitol Street
Pierre, SD 57501-5070

Deonne Bruning
Nebraska Public Service Commission
300 The Atrium
1200 N Street, P.O. Box 94927
Lincoln, NE 68509-4927

James Casserly
Federal Communications Commission
Office of Commissioner Ness
1919 M Street, Room 832
Washington, D.C. 20554